

FISCAL NOTE

HB 3165 - SB 3739

February 13, 2008

SUMMARY OF BILL: Effective in fiscal year 2007-08, prohibits local governments from using state BEP funds to reduce local operating funds that would otherwise go to education in the current fiscal year. Current law prevents local education agencies (LEAs) from using state funds to supplant local operating funds (excluding capital outlay and debt service).

ESTIMATED FISCAL IMPACT:

Increase Local Revenue – Exceeds \$1,000,000 FY07-08 / One-Time
Increase Local Expenditures* –
Exceeds \$1,000,000 FY07-08 / One-Time

Other Fiscal Impact: Prevents current fiscal year supplanting of local government expenditures for education programs with additional state BEP funds allocated to LEAs. Supplanting of these funds by some local governments in FY07-08 has resulted in those local governments reducing appropriations that had been made to LEAs in excess of the minimum required by the BEP and reducing their property taxes by a corresponding amount. Other local governments have shifted to non-education purposes funds previously appropriated to LEAs for education expenditures. Yet other local governments have combined tax reductions and expenditure shifts. These reductions and shifts have resulted in additional state BEP funds effectively replacing funds previously appropriated by local governments to LEAs in FY07-08 in excess of amounts required by the BEP. Local governments will not be able to use state BEP funds to supplant current-year funding, including FY07-08, that would otherwise be provided to LEAs. To comply with this anti-supplanting requirement, local governments will be required to increase revenue and expenditures in FY07-08 to re-allocate local education operating funds to the LEAs that had previously had their local funding reduced.

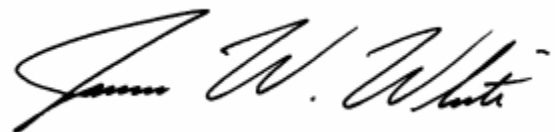
Assumptions:

- According to the Department of Education, 22 local governments have reduced local education expenditures through reductions in taxes and appropriations as a result of receiving BEP 2.0 funds. The reduction in local taxes has exceeded \$1,000,000 and the reduction in local expenditures has exceeded \$1,000,000.
- This bill will take effect in and will apply to local education expenditures in FY07-08. The anti-supplanting language will prevent local governments from taking such actions in FY08-09 and future years, making the impact a one-time increase of local expenditures and revenue.
- The reduced expenditures have been for costs in excess of the minimum required by the BEP. Increased local government revenue and expenditures will be necessary to maintain the level of local education funding originally appropriated for FY07-08 prior to supplanting with state funds, even though such funding is in excess of the minimum required by the BEP.
- BEP funding formula remains unchanged.

**Article II, Section 24 of the Tennessee Constitution provides that: no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a smaller, more compact script than the last name "White".

James W. White, Executive Director

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